



Honorable Mayor and Members of the Hermosa Beach City Council

MIDYEAR BUDGET REVIEW 2025-26

(Finance Manager Henry Chao)

Recommended Action:

Staff recommends City Council:

1. Approve the revisions to estimated revenue, appropriations, budget transfers and fund balances as shown herein and in the attached Projected Change in Financial Position (**Attachment 1**) and the Midyear Budget Amendment (**Attachment 2**);
2. Approve the following transactions from the General Fund:
 - a) Appropriate \$548,007 of assigned fund balance from the Midyear Budget Review 2025-26 to cover the \$548,007 unassigned fund balance shortfall;
 - b) Transfer \$317,833 of unspent funds from 2024-25 actuals to the Insurance Fund to bring the up to the funding goal of \$3.0 million;
 - c) Assign the estimated remaining \$2,239,276 of unspent funds from 2024-25 actuals to the assigned fund balance category;
3. Receive and file the City Council Travel Summary (**Attachment 3**); and
4. Provide direction to staff on whether to continue or discontinue the City’s participation in the Beach Cities Transit (BCT) Line 109 agreement currently funded by Fund 145 Proposition A funds, given increasing subsidy requests, ongoing structural cost pressures, and insufficient ridership data to evaluate Hermosa Beach-specific benefits.

Executive Summary:

This report is to present the Fiscal Year (FY) 2025–26 Midyear Budget Review. With an estimated General Fund revenue increase of \$552,347, an overall increase of expenditures of \$1,835,257, and adjustments to the General Fund’s fund balance reserves, a budget shortfall of \$548,007 is projected by the end of the current 2026 Fiscal Year ending June 30, 2026.

	Amount	
FY 23 Prop A Fund Exchange	\$ 48,211	
FY 25 Midyear to FY 26 Budget	\$ 169,305	
Compensated Absences	\$ 143,839	
One-Time Assigned Funds to FY 26 Budget	\$ 361,355	A
Amended Estimated Revenue	\$ 55,560,894	

Midyear Requested Adjustments	\$ 552,347	
Total Estimated Revenue	\$ 56,113,241	B
Amended Operating Appropriations	\$ 53,399,340	
Transfers Out	\$ 1,788,006	
Midyear Requested Adjustments	\$ 1,835,257	
Total Estimated Operating Appropriations	\$ 57,022,603	C
Projected FY 2026 Ending Shortfall 6/30/2026	\$ (548,007)	D=A+B+C
FY 26 Budget to FY 26 Midyear	\$ 235,594	
FY 25 Year End Stabilization Contingency	\$ 312,413	
One-Time Midyear Assigned Funds to Budget	\$ 548,007	E
Projected FY 26 Ending Balance after Appropriating One-Time Midyear Assigned Funds	\$ -	D + E

Staff recommends using one-time assigned balances of \$235,594 from the FY 26 Budget to FY 26 Midyear from budget savings from the eliminated Deputy City Manager position. For the remainder of the \$312,413 shortfall, Staff is recommending using the assigned FY 2025 Year End Stabilization Contingency from the Proposition A / General Fund Exchange Assignment Agreement with the City of West Hollywood.

Staff also recommends transferring \$317,833 of unspent 2024-25 funds to bring the Insurance Fund beginning FY 2026 fund balance to its funding goal of \$3.0 million and assign the estimated remaining unspent \$2,239,276 to the assigned fund balance category for the upcoming FY 2026-27 City Budget.

Background:

The City has conducted an annual Midyear Budget Review since fiscal year 1981–82. It is customary to conduct a thorough analysis of all estimated revenues and appropriations at the end of the first six (6) months of the fiscal year. All revisions would be recorded as of January 31, 2025 so that midyear revisions for revenue and appropriations would reflect in the 2025–26 Budget worksheets used for preparation of the 2026–27 Budget.

The City Council Conference/Travel Summary was requested by City Council in 2014–15 and continues to be provided as an information item (**Attachment 3**).

On June 10, 2025, Council approved the assignment agreement with the City of West Hollywood to exchange expiring Proposition A Local Return Funds for \$560,000 of General Fund dollars that otherwise would be returned to the County. The \$560,000 of

General Fund money from the exchange along with \$100,000 of identified FY 25 budget savings for a total of \$660,000 was set aside for future City expenditures and use.

On June 24, 2025, Council approved and adopted the Fiscal Year 2025–26 budget. The Deputy City Manager position was eliminated in the budget and recommended that the salary and benefits of the position totaling \$235,594 be set aside for Midyear review.

General Fund Revenues:

	Amended Budget to Date	Requested Budget Amendment	Revised Budget	% Change
Property Taxes	\$ 26,750,921	\$ (158,305)	\$ 26,592,616	-0.6%
Sales Taxes	\$ 3,686,000	\$ (46,000)	\$ 3,640,000	-1.3%
Utility User's Tax	\$ 2,502,252	\$ 10,792	\$ 2,513,044	0.4%
Transient Occupancy Tax	\$ 5,190,000	\$ -	\$ 5,190,000	0.0%
Other Taxes	\$ 2,822,559	\$ (4,074)	\$ 2,818,485	-0.1%
Licenses and Permits	\$ 1,145,946	\$ (87,355)	\$ 1,058,591	-7.6%
Fines and Forfeitures	\$ 2,001,500	\$ -	\$ 2,001,500	0.0%
Use of Money & Property	\$ 1,700,765	\$ (50,284)	\$ 1,650,481	-2.9%
Intergovernmental / State	\$ 153,414	\$ -	\$ 153,414	0.0%
Current Service Charges	\$ 9,691,637	\$ 757,573	\$ 10,449,210	7.8%
Other Revenue	\$ 68,200	\$ 130,000	\$ 198,200	190.6%
Total Revenue	\$ 55,713,194	\$ 552,347	\$ 56,265,541	1.0%
Transfers-in	\$ 361,054	\$ 175,112	\$ 536,166	48.5%

It is requested that the City’s General Fund estimated revenue budget be increased by \$552,347. The following is a brief description of the changes recommended.

Property Taxes

The estimate for overall property tax revenue decreased by 0.6 percent. The midyear estimates for the secured portion of the property tax or “real property”, which is land and personal property located upon that property of the same owner is 1.89 percent lower than the original estimate. The new estimate of Current Year Secured is \$21,383,348. The slight decrease is due to a projected higher delinquency payment rate and successful valuation appeals in the prior fiscal year.

Sales Taxes

The recommended \$46,000 decrease in Sales Taxes reflects the most recent estimates received from HdL Companies, the City's sales tax consultant. Increases are projected for State & County Pools and Restaurants & Hotels, which is the largest industry group for sales tax in Hermosa Beach. This is offset by decreases primarily due to lower projected Food & Drugs and Auto Sales tax estimates.

Utility User Tax (UUT)

UUT is projected to slightly increase 0.4 percent from the original budget, attributable to the costs of electricity. The City will continue to monitor Wired Telecom and Cable TV UUT revenue as residents "cut the cord" in favor of more cost-effective wireless telecom services and continue switching from Cable TV to streaming for their video services.

Transient Occupancy Tax (TOT)

TOT receipts for the first half (through November) are consistent with the original budget, therefore no change is recommended.

Other Taxes

The small decrease of \$4,074 is projected based on historical analysis of the Prop 172 Sales & Use Tax. Proposition 172 is a voter-approved 0.5% statewide sales tax dedicated to funding local public safety services, including police, fire, and criminal justice operations.

Licenses & Permits

This category decreased by 7.6 percent, primarily due to decreases in electric and plumbing permits due to current market conditions. This is offset by a projected increase in building permits based on actual building permit revenues from the first half of the fiscal year.

Fines and Forfeitures

This category was increased by \$450,000 earlier in September 2025 for anticipated increases in parking violation penalty revenue from the updated parking violation bail schedule. Revenue is consistent with the amended budget, therefore no change is recommended.

Use of Money & Property

This net decrease of \$50,284 is primarily due to a decrease of \$45,500 in Community Center Rentals. Community Center Rentals are lower than expected from the closure of Kelly Courts resulting in less pickleball reservations and adjusting anticipated revenue from the Clark Building due to the delay in reopening.

Intergovernmental/State

Estimated reimbursement claims are consistent with the original budget, therefore no change is recommended.

Current Service Charges

This category is projected to increase 7.8 percent from the original budget. The largest increase is from the updated meter rates adopted earlier in October 2025. Staff is anticipating an approximate \$635,000 increase in parking meter revenue this fiscal year. This is followed by a projected increase of \$240,000 in plan-check fees based on activity from the first half of the year.

Increases are offset by a \$50,000 decrease in Other Recreation Programs due to lower than anticipated PARK After School Program enrollment. This is followed by a decrease of approximately \$48,000 in Police Towing fees due to decreased activity from the first half of the year. Current Service Revenue comprises multiple fee-for-service streams that fluctuate based on customer demand and activity levels.

Other Revenue

The recommended \$130,000 increase is due to recognizing a one-time \$100,000 reimbursement for City Administration costs from the 2025 Bond Issuance for the Greenwich Village North Undergrounding Utilities Assessment District.

General Fund Expenditures:

	Amended Budget	Requested Budget Amendment		Revised Budget	% Change
		Labor	Non-Labor Approp.		
Legislative	\$ 1,855,578	\$ 37,577	\$ 200,000	\$ 2,093,155	12.8%
Mgmt. Sup.	\$ 6,046,606	\$ 151,853	\$ 74,275	\$ 6,272,734	3.7%
Prospect. Exp.	\$ 98,580	\$ -	\$ 101,420	\$ 200,000	102.9%
Police	\$ 21,915,685	\$ 913,178	\$ 12,485	\$ 22,841,648	4.2%
Fire	\$ 8,130,532	\$ -	\$ -	\$ 8,130,532	0.0%
Public Works	\$ 10,294,183	\$ 162,822	\$ 12,014	\$10,469,019	1.7%
Com. Dev.	\$ 2,962,770	\$ (163,110)	\$ 157,000	\$ 2,956,660	-0.2%
Parks & Rec.	\$ 2,551,857	\$ 175,743	\$ -	\$ 2,727,600	6.9%
Total Expenditures	\$ 53,855,791	\$1,278,063	\$ 557,194	\$ 55,691,048	3.4%
PEG Funds	\$ 9,130	\$ -	\$ -	\$ 9,130	0.0%
Transfers-out	\$ 1,918,535	\$ -	\$ 317,833	\$ 2,236,368	16.6%
Capital Outlay	\$ -	\$ -	\$ 550,000	\$ 550,000	- %

Staff recommends increasing the City’s operating General Fund expenditures by \$1,835,257. The \$1.3 million increase in personnel costs is due to projected labor

increases in salaries and benefits from the recently negotiated Memorandum of Understanding (MOUs) with the City Employee Bargaining Units earlier this fiscal year. The remainder of the approximate \$557,000 increase is primarily due to recommended increases in contract services.

Each City Department reviewed their budgets in detail and identified where savings could be realized but also requested increases as the decreases made to balance the budget were not all sustainable.

Legislative

Staff recommends increasing the City Attorney budget by \$200,000 from \$480,000 to \$680,000 due to activity from the first half of the year.

Management Support

Staff recommends increasing the Revenue Services contract services budget by \$60,000 for 3rd party collection fees due to an increase in parking citations. This cost is mainly offset by increased collection efforts with the City's new citation vendor.

After identifying savings by releasing both the training budget for the eliminated Deputy City Manager position and the 3rd Party Facilitator for City Manager Evaluation, staff is recommending increasing the City Manager budget by a net \$9,275 to fund a Parking and a Downtown Lot A study.

The Finance Administration Division labor is increased \$5,050 for a staff promotion from Senior Account Clerk to Administrative Assistant. The promotion is to provide overlap and assume duties from the current Administrative Assistant that is retiring in July 2026.

Management Support – Prospective Expenditures

Staff recommends replenishing the prospective expenditures for \$98,580 to cover unanticipated expenses for the remainder of the fiscal year. This was originally adopted to be budgeted for \$200,000 but was primarily used this Fiscal Year to cover department needs including the Council approved CSG Consultant amendment, the City Manager Executive Recruitment, Recreation Management software implementation expenses, and the Xanadu Janitorial Service contract.

Public Safety – Police

The \$925,663 increase in the Police budget is primarily due to a projected approximately \$913,000 increase in labor costs from the recently negotiated and approved MOUs.

Staff is also recommending an adjustment for \$6,000 to the Office Operating Supplies budget for computer chairs after ergonomic tests and an increase of \$6,485 to Contract Services for shooting range budget expenditures. The range budget expenditures will be

offset by an equal \$6,485 reimbursement for firearms the Police Department are selling back to a manufacturer.

Public Safety – Fire

Contracted Fire Services are consistent with the original budget, therefore no change is recommended.

Public Works

Staff is recommending adjustments of \$4,014 to the Downtown Enhancement Division and \$8,000 of anticipated repair and maintenance supplies for the Public Works Yard division.

Community Development

The labor decrease of \$163,110 is primarily due to adjusting the pension allocations from former Community Development department staff to the current department staff.

This offsets a recommended increase of \$157,000 to the Community Development Contract Services budget. The increase is due to \$50,000 for contracted plan review services and a contracted permit technician of \$60,000 to support ongoing Accela activation and meet state mandated reporting requirements.

Staff also recommends an increase of \$37,000 for the City match for the South Bay Regional Housing Trust Joint Powers Agreement that was approved by Council earlier on March 10, 2026 and \$10,000 to the training budget for ongoing required departmental training.

Parks/Recreation (Community Resources)

Staff has no changes with the operating appropriations budget at Midyear.

Public, Educational, and Governmental Access (PEG) Funds

Staff has no change to the PEG funds budget and will revisit as part of the upcoming FY 2026-27 Budget Cycle.

Transfers In / Transfers Out

Staff is recommending a transfer in of \$175,112 from completed legacy assessment redemption funds to the General Fund assigned fund balance category for prior City administrative costs. Staff is also recommending a transfer out of \$317,833 from unspent 2024-25 funds to bring the Insurance Fund beginning FY 2026 fund balance to its funding goal of \$3.0 million.

Capital Outlay from Donations

Staff is requesting an appropriation of \$550,000 from the restricted fund balance category of donations for two General Fund Capital Improvement Projects (CIP).

CIP 111 – Sheldon Donation

The \$500,000 of Chuck and Missy Sheldon donation is requested to be budgeted for a monument signage.

CIP 112 – Chamber of Commerce Donation

The \$50,000 of the Chamber of Commerce Marquee Donation is requested to be budgeted for a marquee sign.

Available Funds

After the recommended budget revisions, a shortfall of \$548,007 is reflected in the General Fund.

Staff recommends addressing the shortfall by appropriating the balance of \$235,594 from Fiscal Year 2026 Adopted Budget savings due to the elimination of the Deputy City Manager position.

For the remainder of the \$312,413 shortfall, Staff is recommending appropriating the assigned FY 2025 Year End Stabilization Contingency from the Proposition A / General Fund Exchange Assignment Agreement with the City of West Hollywood.

Other Funds:

Adjustments to both estimated revenues and appropriations are proposed for the City’s other funds (excluding the Capital Improvement Projects (CIP) fund, which will be addressed in the following section). Revenue adjustments to other funds are due to an increase in interest revenue from City deposits held longer in pooled investments until usage. Appropriation adjustments are due to updated salary and benefit cost allocations at other funds where budgeted.

The major adjustments are explained below.

115 State Gas Tax Fund

Staff is releasing \$60,200 of CIP 105 Annual Street Improvements back to the Gas Tax Fund as the project is completed.

116 TDA 3 (Transportation Development Act) Fund

Staff is releasing \$18,000 of CIP 193 Pedestrian Crossing Safety Improvements back to the TDA fund since the project was completed in the prior fiscal year.

122 Tyco Fund

Staff is releasing approximately \$191,300 of CIP 105 Annual Street Improvements and \$3,000 of CIP 502 Greenbelt Pedestrian Trail back to the Tyco Fund as both projects are completed.

145 Proposition A Fund

Staff is releasing a net total of \$782,000 back to the Proposition A Fund as the \$800,000 Fund Exchange with the City of West Hollywood occurred in the last month of the prior 2025 fiscal year. This is offset by budgeting an additional \$18,000 for the Valley Park Day Camp excursions.

Beach Cities Transit Line 109 (145 Proposition A Fund)

The City of Hermosa Beach has participated in the Beach Cities Transit (BCT) Line 109 agreement since 2006, with minimal subsidy requirements until FY 2025–26, when BCT requested \$17,183 due to rising operating costs. For FY 2026–27, BCT is requesting \$19,761, reflecting the City’s 10.89% cost share.

Operating costs are expected to continue increasing due to structural cost pressures and flat ridership, which is likely to result in higher future subsidy requests from all partner agencies. In FY 2025–26, staff amended the agreement to require enhanced ridership reporting. However, farebox data received to date is approximately 70% incomplete and insufficient for meaningful analysis of Hermosa Beach usage.

147 Measure R Fund

Staff is releasing \$18,354 of CIP 105 Annual Street Improvements back to the Measure R Fund as the project is completed.

150 Grants Fund

The estimated revenue is updated to increase \$510,000 for the Grants Fund. The increase is to recognize \$460,000 in reimbursements for Municipal Pier Repair CIP 629 and CIP 660 that was completed two years prior in Fiscal Year 2024. The remainder \$50,000 is due to recognition of reimbursement revenue from CalRecycle for CIP 105 Annual Street improvements in the prior fiscal year.

160 Sewer Fund

Staff is updating the CIP 421 Annual Sewer Improvements Phase II budget from \$3,865,610 to \$1,765,884 to recognize activity completed in the prior fiscal year 2025.

190 RTI Undersea Cable Fund & 191 Tidelands Undersea Cable Fund

The installation of the 4th easement cable has been delayed to next fiscal year.

Staff is releasing \$96,202 and \$95,000 of CIP 695 Parking Lot A Improvements in the RTI Undersea and RTI Tideland funds respectively.

705 Insurance Fund

Staff has updated the estimated revenue by approximately \$108,000 for insurance reimbursements received this year.

Staff is also reclassing \$100,000 of available budget within the Insurance Fund from General Liability Claims to cover year end projected Workers Compensation Claims.

Although the projected ending fund balance for the Insurance Fund is approximately \$2.85 million with the estimated revenue increase and the \$317,833 transfer in from unspent 2024-25 funds, staff is anticipating actual General Liability Claims expenditure to be less than budgeted. Staff recommends no changes due to the uncertainty of insurance claims for the remainder of the fiscal year and will revisit as part of the upcoming FY 2026-27 Budget Cycle.

715 Equipment Replacement Fund

Staff is requesting an additional \$181,000 of appropriations offset by approximately \$21,000 in updated salary and benefit cost allocations.

For Information Technology, this includes \$21,535 for Cycle 8 of the Los Angeles Regional Imagery Acquisition Consortium (LARIAC). LARIAC will provide digital aerial imagery used by the City for project planning, plan review and other critical processes. Staff is also requesting an additional \$2,550 to upgrade the Community Center Conference room to hold virtual meetings.

The Police Department is requesting \$35,000 to equip all Police Vehicles and Community Service Officer (CSO) Vehicles with Automated External Defibrillators (AEDs). Other Police Department equipment requests include \$3,400 to equip all CSO vehicles with medical kits, \$6,000 for 40mm less lethal mounts in Police Department vehicles and \$5,900 to equip Axon Kits for 2 Chevy Tahoe's.

Staff is also requesting an additional \$106,600 to purchase 2 Ford Explorers and related outfitting costs for Police Administration staff. The two Ford Explorers will replace two 2014 Ford Fusion Hybrid S vehicles to be auctioned.

Capital Improvement Projects (CIP)

The originally adopted CIP budget for FY 2025-26 was \$33,944,125, consisting of 36 projects that are either directly charged to their funding source or to the 301 Capital Improvement Project Fund.

The total net change to the Capital Improvement Fund is an increase of \$1,438,840 to bring the projected ending CIP Fund balance to \$1,664,275. This is primarily due to the actual costs of completed CIP projects being lower than budgeted and releasing \$1,274,184 of project budget back to the CIP Fund. Staff is also updating the CIP Fund estimated revenue by \$164,656 to recognize additional interest revenue received this fiscal year.

The release of completed project budgets frees up funding for necessary City projects anticipated in the upcoming next fiscal year budget cycle.

In this midyear budget review, the budgets for the following CIP projects are recommended to be released back to the CIP fund as the projects are nearing completion or completed.

109 Utility Box Wrappings

Staff recommends releasing \$7,200 back to the CIP fund.

502 Greenbelt Pedestrian Trail

Staff recommends releasing \$25,702 back to the CIP fund.

603 South Park Slope, Irrigation and Landscape Improvements

Staff recommends releasing \$1,080,630 back to the CIP fund to amend carryforward and release remaining budget. The project was completed earlier this fiscal year.

604 City Wide ADA Improvements

Staff recommends releasing \$288,692 back to the CIP fund.

605 City Facilities Condition and Needs Assessment

Staff recommends releasing \$346,530 back to the CIP fund.

617 Civic Center Charging Stations

Staff recommends releasing \$49,130 back to the CIP fund.

633 Base 3 Electrical Improvements

Staff recommends releasing \$200,000 back to the CIP fund.

689 Clark Building Renovations

Staff recommends releasing \$200,000 back to the CIP fund.

In this mid-year budget review, appropriations are recommended from the CIP fund for the following projects.

615 New Corporate Yard Facilities

Staff recommends appropriating the remaining \$889,278 set aside as a CIP Fund reserve balance for the City Yard Construction to cover anticipated expenditures for the remainder of the Fiscal Year.

619 Kelly Court Improvements

Staff recommends appropriating an additional \$51,403 to the CIP project to maintain proper construction inspection coverage and compliance with labor regulations.

Fiscal Impact:

With a \$548,007 projected structural General Fund shortfall after midyear adjustments, staff is recommending using one-time savings of \$235,594 from the eliminated Deputy City Manager position and \$312,413 of FY 25 Stabilization Contingency from the Proposition A fund exchange to balance the FY 26 budget.

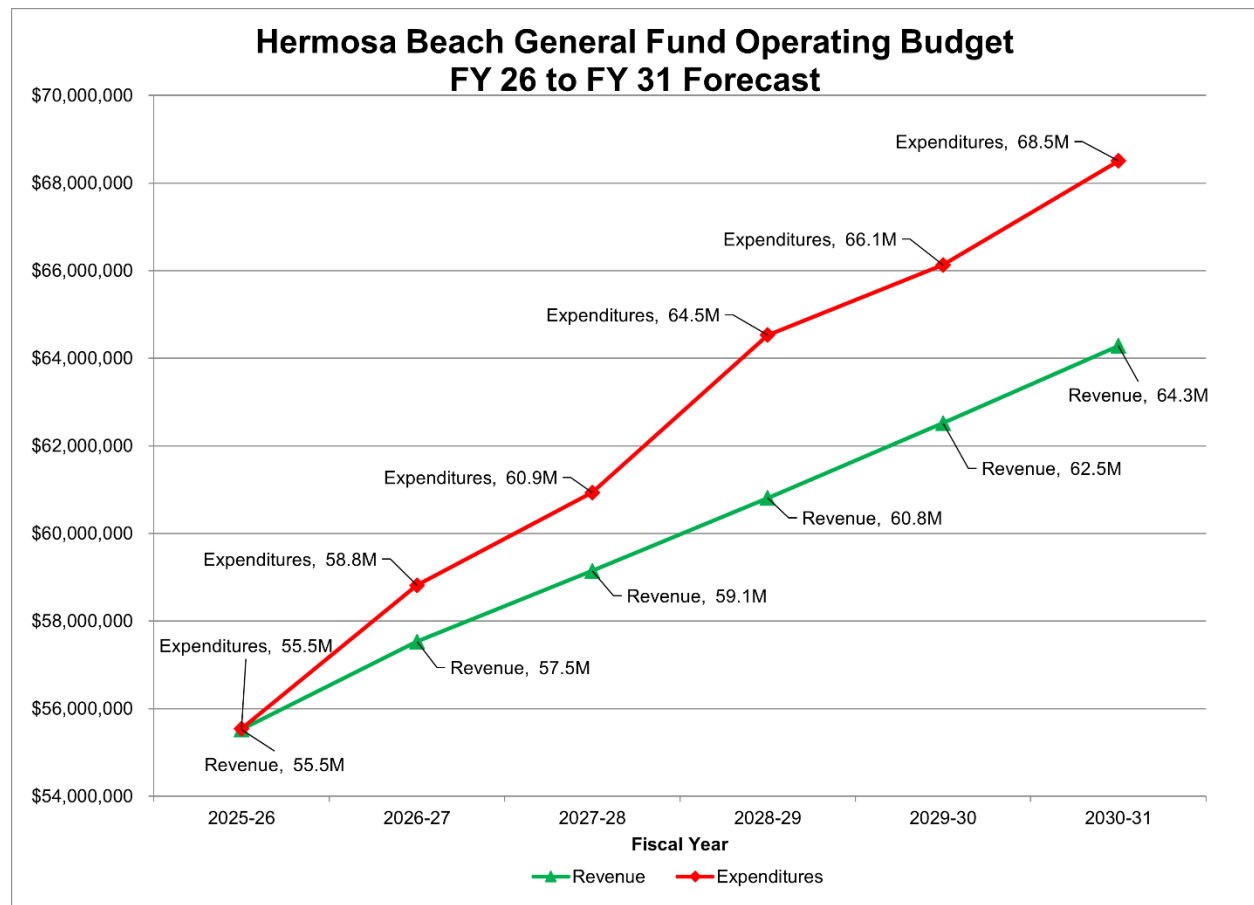
The City has used one-time savings and measures to manage structural City budget deficits to create a balanced budget.

The Fiscal Year 2025–2026 budget was balanced in part by using \$361,355 in one-time funds from the City’s General Fund. These funds came from several sources, including the FY 2023 Prop A exchange, savings identified during the previous year’s midyear review, and funds set aside for employee leave obligations.

In this Midyear update, the City is projected to increase expected General Fund revenues by \$552,347. At the same time, planned spending is projected to rise by \$1,835,257 to address operational needs. These adjustments were carefully made to help the City manage ongoing financial challenges while continuing to provide essential services to the community, even as costs rise and economic conditions remain uncertain.

Overall, a total of \$909,362 in one-time funds was used to balance the FY 2026 budget.

On June 24, 2025 during the budget adoption, the below five-year forecast was presented;



Given ongoing fiscal uncertainty, staff projects structural deficits in the upcoming fiscal years, driven by expenditures outpacing anticipated revenues. Contributing factors include rising costs associated with departmental contract service negotiations, as well as pending service agreements with the Los Angeles County Fire Department for fire protection, beach operations, and lifeguard services.

Additional fiscal pressures include the need to replenish the Capital Improvement Program (CIP) Fund to support critical infrastructure projects that maintain community safety and service levels. The City must also address unanticipated expense increases, which may include rising contract service costs, infrastructure and maintenance needs, legal liabilities, personnel and benefit cost increases, and fluctuations in fuel, utility, and other operational expenses.

In light of these economic uncertainties, staff recommends that the City Council approve the proposed General Fund transactions and appropriate the estimated remaining balance of \$2,239,276 in unspent FY 2024–25 funds to support the development of the FY 2026–27 budget.

Attachments:

1. Projected Change in Financial Position
2. Midyear Budget Amendment
3. City Council Travel Summary

Respectfully Submitted by: Henry Chao, Finance Manager

Concur: Charlotte Newkirk, Senior Finance Analyst

Noted for Fiscal Impact: Brandon Walker, Administrative Services Director

Approved: Steve Napolitano, City Manager